

TKJ, INC.

Financial Statements --- June 30, 2005

(With Independent Certified Public Accountant's Report Thereon)

**Lane K Peterson**  
Certified Public Accountant

TKJ, INC.  
Table of Contents

<u>Description</u>	<u>Page</u>
Independent Certified Public Accountant's Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	10
Independent Certified Public Accountant's Report on State Legal Compliance	12



Lane K Peterson

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INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT'S REPORT

To the Board of Directors of  
TKJ, Inc.

I have audited the accompanying statement of financial position of TKJ, Inc. as of June 30, 2005, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of TKJ, Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TKJ, Inc. as of June 30, 2005, and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated February 18, 2006, on my consideration of TKJ, Inc.'s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Salt Lake City, Utah  
February 18, 2006

TKJ, INC.

Financial Position

June 30, 2005

ASSETS

Current Assets:

Cash	\$261,580
Contract receivables	399,379
Other receivables	16,362
Prepaid expenses	<u>26,978</u>

Total Current Assets	<u>704,299</u>
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Contributions receivable	186,647
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Property and equipment less accumulated depreciation of \$45,327	<u>5,815</u>
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Total Assets	<u>\$896,761</u>
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LIABILITIES

Current Liabilities:

Accounts payable	\$ 28,262
Accrued payroll	194,741
Other accrued accounts	33,473
Accrued compensated absences	616,532
Accrued retirement	<u>11,122</u>

Total Current Liabilities	<u>884,130</u>
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Total Liabilities	<u>884,130</u>
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NET ASSETS

Unrestricted	<u>12,631</u>
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Total Net Assets	<u>12,631</u>
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Total Liabilities and Net Assets	<u>\$896,761</u>
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The accompanying notes are an integral part of these financial statements.

TKJ, INC.

Statement of Activities

For Year Ended June 30, 2005

Unrestricted Net Assets

Support:

State Division of Handicapped Services	\$5,170,309
University of Utah IOTI	37,988
Other revenue	35,465
Donations	621
Gain on Sale of Assets	2,225
Interest	<u>4,446</u>

5,251,054

Expenses:

Bad Debt	375,000
Program Services	
Personal Outcome support services	4,309,686
Supporting Services	
General	<u>779,204</u>

5,463,890

Decrease in Unrestricted Net Assets	(212,836)
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Net assets at beginning of year,	<u>225,467</u>
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Net assets at end of year	<u>\$ 12,631</u>
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The accompanying notes are an integral part of these financial statements.

TKJ, INC.

Statement of Functional Expenses

For Year Ended June 30, 2005

	Program <u>Services</u>	Support <u>Services</u>	
	Personal Outcome Support <u>Services</u>	General	Total
Salaries	\$3,261,914	554,998	3,816,912
Payroll taxes	292,418	41,019	333,437
Health benefits, retirement and moral	<u>93,689</u>	<u>77,364</u>	<u>171,053</u>
Total salaries and related expenses	<u>3,648,021</u>	<u>673,381</u>	<u>4,321,402</u>
Tuition reimbursement	58,912	823	59,735
Transportation	123,089	14,630	137,719
Contract labor	12,536	-	12,536
General insurance	53,970	-	53,970
Membership dues	880	10,229	11,109
Occupancy/Treatment space	196,338	18,000	214,338
Testing expense	1,651	15	1,666
Telephone	26,795	5,577	32,372
Postage	479	398	877
Equipment under \$1,000	774	128	902
Equipment repairs	12,786	3,418	16,204
Office supplies	7,447	2,907	10,354
Program	96,992	80	97,072
Quality of life	6,448	-	6,448
Food	14,004	333	14,337
Maintenance	24,153	13	24,166
Books and subscriptions	230	-	230
License and permits	2,142	186	2,328
Other	-	613	613
Conferences	1,655	115	1,770
Seminars and training	3,777	76	3,853
Legal	4,760	525	5,285
Public relations	8,198	2,733	10,931
Accounting and audit	-	35,493	35,493
Equipment over \$1,000	1,996	-	1,996
Interest expense	184	334	518
Depreciation	<u>1,469</u>	<u>9,197</u>	<u>10,666</u>
	<u>\$4,309,686</u>	<u>779,204</u>	<u>5,088,890</u>

The accompanying notes are an integral part of these financial statements.

TKJ, INC.

Statement of Cash Flows

For Year Ended June 30, 2005

Cash flows from operating activities:	
Increase in net assets	\$ (212,836)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	10,666
Gain on sale of assets	(2,225)
(Increase) decrease in operating assets	
Contract receivables	(37,177)
Contributions receivable	375,000
Other receivables	(13,069)
Prepaid expenses	15,106
Increase (decrease) in operating liabilities	
Accounts payable	(7,744)
Accrued payroll	19,213
Other accrued accounts	10,280
Accrued compensated absences	(123,222)
Accrued retirement	(8,551)
Net cash provided by operating activities	<u>25,441</u>
Cash flows from investing activities:	
Proceeds from sale of assets	26,844
Purchase of equipment	<u>-</u>
Net cash used by investing activities	<u>26,844</u>
Cash flows from financing activities:	
Payments on contracts payable	<u>(33,145)</u>
Net cash used by financing activities	<u>(33,145)</u>
Net increase in cash	19,140
Beginning cash	<u>242,440</u>
Ending cash	<u>\$ 261,580</u>
Interest paid	<u>\$ 518</u>
Donated assets	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

TKJ, INC.

Notes To Financial Statements

For Year Ended June 30, 2005

(1) Organization and Significant Accounting Policies

- a. The organization was organized as a Utah nonprofit corporation within the meaning of the Utah Nonprofit Corporation and Cooperative Association Act on May 13, 1982.

The organization is to cultivate, foster, promote and support public and charitable programs for assistance to people with disabilities and people with behavioral, psychological and other problems affecting their ability to adjust to others and to society and to provide supports for such people.

- b. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- c. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.
- d. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Restricted contributions are required to be reported as temporarily or permanently restricted support and are then reclassified to unrestricted net assets upon expiration of the time restriction or appropriate use of the assets.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Donated materials and equipment are reflected as contributions at their estimated values at date of receipt. No amounts have been reflected in the statements for donated services as they did not meet the criteria for recognition.



TKJ, INC.

Notes To Financial Statements - Continued

(1) Organization and Significant Accounting Policies - continued

- e. The Organization maintains all of its cash balances in one institution in one interest bearing checking account and one interest bearing money market account. Of these balances only one is insured by the Federal Deposit Insurance Corporation up to \$100,000 in the aggregate. The money market account is uninsured and has a balance of \$282,966 at June 30, 2005. It is the Organization's policy to invest cash with financial institutions judged to be highly secure. For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.
- f. The following methods and assumptions were used by the Organization in estimating its fair value disclosures for financial instruments:

The amounts reported as cash, receivables, other assets, trade accounts payable, accrued expenses, obligations under capital leases and notes payable are considered to be reasonable approximations of their fair values. The fair value of financial instruments is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. In the case of contract receivables, promises to give and debts, the carrying value approximates fair value. The reported fair values do not take into consideration potential expenses that would be incurred in an actual settlement.
- g. Fixed assets are recorded at cost or fair market value at time of donation. It is the policy of the Organization to capitalize fixed assets with an individual cost of \$5,000 and a useful life of more than one year. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis over various lives.
- h. TKJ, Inc qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code as other than a private foundation and therefore has no provision for income taxes.

(2) Grants

The State grants awarded to TKJ, Inc. relating to funds included in this audit report consist of the following:

- a. Utah State Department of Human Services, Division of Services for People with Disabilities contract number A00549, grant period July 1, 2004 through June 30, 2005 for \$5,170,309.

TKJ, INC.

Notes To Financial Statements - Continued

(3) Concentrations of Credit Risk

Financial instruments that subject the Organization to potential concentrations of credit risk consist of cash and receivables. The Organization maintains its cash in bank accounts, which may exceed federally insured limits. At June 30, 2005, the Organization's bank balances exceeded federally insured limits by approximately \$282,189. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances. Concentrations of credit risk with respect to receivables are limited due to the fact that they are due from governmental agencies and related parties. Related party receivables are secured by trust deeds on real estate.

(4) Economic Dependency

The Organization receives the majority of its revenues from state government contracts. These contracts provide funding for up to one year at a time. If these contracts are not renewed or replaced, the Organization would not be able to operate in the same manner as it has in the past. Management considers the likelihood of such an occurrence remote.

(5) Contributions Receivable

On June 30, 2004, Life Chances Foundation, a private nonprofit charitable organization, established to provide support either directly or indirectly for the programs and purposes of TKJ, Inc, pledged \$561,647 for TKJ, Inc.'s day to day operations as TKJ, Inc. determines appropriate. Funds will be transferred if a written request is received from TKJ, Inc. management stating that the funds are needed. During 2005, a write off was made as the needs of TKJ were considered satisfied by activities in the amount of \$375,000 leaving a pledge of \$186,647. Life Chances Foundation is managed by a Board of Trustees, which is comprised of three key employees of TKJ, Inc. Life Chances Foundation has the ability to provide support to other authorized charitable entities, as its Board of Trustees may deem appropriate.

(6) Property and Equipment

A summary of the Organization's property and equipment at June 30, is as follows:

	Life in Years	Cost	Accum. Depn.	Net Asset
Vehicles	5	\$36,182	36,182	-
Equipment	5-7	<u>14,960</u>	<u>9,145</u>	<u>5,815</u>
		<u>\$51,142</u>	<u>45,327</u>	<u>5,815</u>

Depreciation charged to operations was \$10,666.

TKJ, INC.

Notes To Financial Statements - Continued

(7) Pension Plan

The company sponsors a defined contribution pension plan that covers substantially all employees. Contributions to the plan are based on a percentage of gross wages under Code Section 401(k) deferment. For June 30, 2005 the amount of pension expense was \$81,282.

(8) Commitments

The Organization leases two vehicles under operating lease agreements for periods of three years, expiring in April 2007 and June 2008. Rental expense for the year ended June 30, 2005 amounted to \$9,172. Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2005 are \$17,509 - 2006, \$14,203 - 2007 and \$8,776 - 2008.

The Organization leases real properties from various parties under written or verbal operating lease agreements. The leases are provided by independent leasing agencies and related parties. Lease expense provided by these parties amounted to \$180,000 for J Quad L.L.C. and \$18,000 for Terry Jensen for the year. Total real property lease expense with no guaranteed minimum future payments was \$198,000 for the year ended June 30, 2005.

(9) Related Parties

TKJ, Inc. has leased certain properties from J Quad L.L.C. and Terry Jensen. J Quad L.L.C. is controlled by Terry Jensen who is employed as an executive for the Company. The effects of these relations on the Company affairs is unknown.

TKJ, Inc. has a pledge from Life Chances Foundation, which is managed by a Board of Trustees comprised of three key employees of TKJ, Inc. The effects of these relations on the Company affairs are unknown.

(10) Contingencies

Grants:

Grants are subject to review and audit by State Agencies. Such audits could result in a request for reimbursement by the State for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of management, such disallowances, if any will not be significant.

Litigation:

The Company is not aware of any contingent liabilities that would materially effect the financial statement at June 30, 2005.



Lane K Peterson

Certified Public Accountant

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of  
TKJ, Inc.

I have audited the financial statements of TKJ, Inc. (a nonprofit organization) as of and for the year ended June 30, 2005, and have issued my report thereon dated February 18, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether TKJ, Inc.'s financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered TKJ, Inc.'s internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to material weaknesses.

To the Board of Directors of  
TKJ, Inc.  
Report on Compliance and Internal Control GAS  
Page 2

This report is intended solely for the information and use of management, Board of Trustees, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Lane K Peterson CPA". The signature is written in dark ink and is positioned to the left of the printed name and title.

Salt Lake City, Utah  
February 18, 2006



Lane K Peterson

Certified Public Accountant

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INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT'S REPORT ON STATE LEGAL COMPLIANCE

To the Board of Directors of  
TKJ, Inc.

I have audited the financial statements of TKJ, Inc., a nonprofit corporation, for the year ended June 30, 2005 and have issued my report thereon date February 18, 2006. As part of my audit, I have audited TKJ, Inc.'s compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to its major State assistance program as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. TKJ, Inc. received the following major State assistance program from the State of Utah:

Division of Services for People with Disabilities (State Department of Human Services)

The management of TKJ, Inc is responsible for its compliance with the compliance requirements identified above. My responsibility is to express an opinion on compliance with those requirements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about TKJ, Inc.'s compliance with those requirements. I believe that our audit provides a reasonable basis for my opinion.

The results of my audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In my opinion, TKJ, Inc. complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major State assistance program for the year ended June 30, 2005.

Salt Lake City, UT 84121  
February 18, 2006